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STATE OF MONTANA

Report to the Legislature

MONTANA HEALTH FACILITY AUTHORITY

DEPARTMENT OF COMMERCE

Report on the Examination
of Financial Statements

Fiscal Year Ended June 30, 1984

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MONTANA HEALTH FACILITY AUTHORITY

DEPARTMENT OF COMMERCE

Report on the Examination
of Financial Statements

Fiscal Year Ended June 30, 1984

84-32

Office of the Legislative Auditor
Room 135, State Capitol
Helena, Montana 59620

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APPOINTIVE AND ADMINISTRATIVE OFFICIALS

MONTANA HEALTH FACILITY AUTHORITY

Larry Fasbender, Chairman	June 30, 1988
Charles V. Shewey	June 30, 1985
Sister Mary Serena Sheehy	June 30, 1986
Mary D. Munger	June 30, 1987
D.M. Osborn	June 30, 1988
R.H. Robinson	June 30, 1988

AUTHORITY STAFF

Jack Nielson, Administrator

Helen Julian, Administrative Assistant

INTRODUCTION

We performed a financial-compliance audit of the Montana Health Facility Authority (MHFA) of the Department of Commerce for the fiscal year ended June 30, 1984. The objectives of the audit were to: 1) determine if the authority's financial statements present fairly its financial position at June 30, 1984 and the results of its operations for the fiscal year then ended; 2) determine the authority's compliance with applicable laws and regulations; and 3) make recommendations for improvements in the authority's management information system and internal controls.

We reviewed compliance with state laws and regulations that could have a material impact on the financial statements of the authority. In our opinion, the authority complied with state laws and regulations tested. Nothing came to our attention that caused us to believe untested items were not in accordance with applicable laws and regulations.

We thank the administrator, his staff, and the Department of Commerce personnel for their cooperation and assistance during our audit.

BACKGROUND

The Montana Health Facility Authority (MHFA) was established during the 1983 Legislative Session to provide low cost financing of capital equipment and buildings for non-profit Montana health institutions. Currently, the authority administers the following two programs.

The Pooled Loan Program is designed to provide financing and refinancing for equipment and minor improvement costs of qualified health institutions. Under this program, the authority issued $23,500,000 of revenue bonds in September 1984 to provide funds for such purposes to participating institutions. The authority contracted with an investment firm to invest the bond proceeds until needed by the participating institutions. The authority will loan the proceeds to the participating institution at a rate which

reflects the rate paid by the authority on the bonds plus the authority's costs and expenses incidental to the program.

The Stand-Alone Program will authorize tax exempt financing on a project by project basis. Bonds or notes will be issued for each of the individual projects under this program.

The programs were enacted for the purpose of containing health care costs by providing more attractive financing to health care facilities. MHFA is governed by a quasi-judicial board appointed by the Governor with the advice and consent of the Legislature. The authority is attached to the Department of Commerce for administrative purposes. Financial accounting for the board is performed by the department's Management Services Division.

INTERNAL CONTROL

We have examined the financial statements of the Montana Health Facilities Authority for the fiscal year ended June 30, 1984. We issued our opinion dated November 27, 1984 on these statements. As part of our examination, we made a study and evaluation of the system of control of the Montana Health Facility Authority which is administered through the Department of Commerce. Our study evaluated the system as required by generally accepted governmental auditing standards for financial and compliance audits. We classified controls in these categories: 1) expenditures; 2) payroll; 3) revenue; and 4) cash.

Our study included the control categories listed. Through our study, we determined the nature, timing, and extent of our auditing procedures. We performed substantive audit tests on payroll, revenue and cash because it was more efficient to do so. We did not evaluate the control system to the extent necessary to give an opinion on either individual segments or the system as a whole. Our evaluation disclosed no condition that we believe to be a material weakness of internal controls.

The management of the Montana Health Facility Authority is responsible for establishing and maintaining a system of accounting control. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and

related costs of control procedures. The objectives of a system are to provide management with reasonable assurance that: 1) assets are safeguarded against loss from unauthorized use or disposition; 2) transactions are executed in accordance with management's authorization; and 3) transactions are recorded properly to permit the preparation of financial statements in accordance with generally accepted accounting principles. Inherent limitations in any system of controls may cause errors or irregularities to remain undetected. The current system evaluation should not be used to project to future periods since the procedures may become inadequate or compliance with them may deteriorate.

The limited purpose of our study described in the first paragraph would not necessarily disclose all material weaknesses in the system. Accordingly, we do not express an opinion on the system of controls used by the Montana Health Facility Authority.

The preceding four paragraphs are intended solely for the use of management and the Legislature and should not be used for any other purpose. This restriction as to use is not intended to limit the distribution of this document which, upon presentation to the Legislative Audit Committee, is a matter of public record.

AUDITOR'S REPORT AND AUTHORITY FINANCIAL STATEMENTS

STATE OF MONTANA

Office of the Legislative Auditor

STATE CAPITOL
HELENA, MONTANA 59620
406/444-3122

ROBERT R. RINGWOOD
LEGISLATIVE AUDITOR

DEPUTY LEGISLATIVE AUDITORS:
JAMES H. GILLETT
FINANCIAL/COMPLIANCE AUDITS
SCOTT A. SEACAT
PERFORMANCE AUDITS

STAFF LEGAL COUNSEL
JOHN W. NORTHEY

The Legislative Audit Committee
of the Montana State Legislature:

We have examined the Balance Sheet as of June 30, 1984 and the related Statement of Revenues, Expenses, and Changes in Retained Earnings and the Statement of Changes in Financial Position of the Montana Health Facility Authority Enterprise Fund for the fiscal year then ended. Our examination was made in accordance with generally accepted governmental auditing standards for financial and compliance audits and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary under the circumstances.

In our opinion, the financial statements referred to above present fairly the financial position as of June 30, 1984 and the results of operations and the changes in retained earnings of the Montana Health Facility Authority Enterprise Fund for the fiscal year ended June 30, 1984, in conformity with generally accepted accounting principles.

Respectfully submitted,

James Gillett

James H. Gillett, CPA
Deputy Legislative Auditor

November 27, 1984

Approved:

Robert R. Ringwood

Robert R. Ringwood
Legislative Auditor

MONTANA HEALTH FACILITY AUTHORITY
DEPARTMENT OF COMMERCE
BALANCE SHEET - ENTERPRISE FUND
JUNE 30, 1984

ASSETS	
Cash	$ 34,302
Total Assets	$ 34,302
LIABILITIES AND FUND EQUITY	
Liabilities	
Inter-entity Loan Payable (Note 5)	$ 35,000
Accounts Payable	1,327
Accrued Expenses	144
Due to FYE Cash Cutoff	8,244
Total Liabilities	44,715
Fund Equity	
Retained Earnings (Note 5)	(10,413)
Total Fund Equity	(10,413)
TOTAL LIABILITIES AND FUND EQUITY	$ 34,302

The notes to the financial statements are an integral part of this statement.

MONTANA HEALTH FACILITY AUTHORITY
DEPARTMENT OF COMMERCE
STATEMENT OF REVENUES, EXPENSES, AND
CHANGES IN RETAINED EARNINGS - ENTERPRISE FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 1984

OPERATING REVENUES:	
Application Fees	$ 7,065
Total Operating Revenue	7,065
OPERATING EXPENSES:	
Personal Services	5,923
Contracted Services	6,391
Supplies and Materials	63
Communications	767
Travel	3,430
Rent	103
Repair and Maintenance	46
Other Expenses	722
Equipment and Intangible Assets	33
Total Operating Expenses	17,478
NET INCOME (Loss)	(10,413)
Retained Earnings - July 1, 1983	-0-
Retained Earnings - June 30, 1984 (Note 5)	$(10,413)

The notes to the financial statements are an integral part of this statement.

MONTANA HEALTH FACILITY AUTHORITY
DEPARTMENT OF COMMERCE
STATEMENT OF CHANGES IN FINANCIAL POSITION
ENTERPRISE FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 1984

SOURCES OF WORKING CAPITAL:	
Total Sources of Working Capital	$ -0-
USES OF WORKING CAPITAL:	
Operations:	
Net Loss	10,413
Total Uses of Working Capital	10,413
Net Increase (Decrease) in Working Capital	$(10,413)
ELEMENTS OF NET INCREASE (DECREASE) IN WORKING CAPITAL:	
Cash	$ 34,302
Inter-entity Loan Payable	(35,000)
Accounts Payable	(1,327)
Accrued Expenditures	(144)
Due to FYE Cash Cutoff	(8,244)
Net Increase (Decrease) in Working Capital	$(10,413)

The notes to the financial statements are an integral part of this statement.

MONTANA HEALTH FACILITY AUTHORITY
DEPARTMENT OF COMMERCE
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 1984

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Montana Health Facility Authority of the Department of Commerce administers two programs. These programs - the Pooled Loan Program and the Stand Alone Program - will provide financing for qualifying health institutions. The authority is governed by a quasi-judicial board and is attached to the Montana Department of Commerce for administrative purposes.

A. Basis of Accounting

The financial statements were prepared from the Statewide Budgeting and Accounting System with adjustments.

The Montana Health Facility Authority utilizes the accrual basis of accounting for the Enterprise Fund. Under this basis, revenues are recognized in the period in which they are earned and become measurable. Expenses are recognized in the period incurred, if measurable.

B. Description of Fund

The fund presented and its relationship to the State Treasury Fund structure is as follows:

PROPRIETARY FUND TYPE

Enterprise Fund - to account for operations providing services to the general public on a cost reimbursement basis, and for operations where a periodic determination of revenues, expenses, and net income are needed for management control.

C. Inventories

Inventories consist of expendable supplies held for consumption. The cost is recorded as an expenditure at the time

individual inventory items are purchased. The amount of supplies inventory on hand at June 30, 1984 was immaterial.

D. Insurance

The board is insured through the Insurance Division of the Department of Administration.

2. SUBSEQUENT EVENTS

During August 1984, the Montana Health Facility Authority issued $1,200,000 of Short-Term Revenue notes. The notes were issued to provide interim financing for construction of a health care facility.

On September 1, 1984, the authority issued $23,500,000 of revenue bonds. The bonds were issued to provide resources for short-term loans to eligible health facilities to finance or refinance capital improvements or equipment purchases. The bonds are limited obligations of the Authority, payable solely out of revenue from loan repayments. The Revenue Bonds bear a variable interest rate and are due September 1, 1991.

3. EMPLOYEES' RETIREMENT SYSTEM

The Montana Health Facility Authority (MHFA) employees are covered by the Public Employees' Retirement System (PERS). This plan is administered by the State of Montana. Under PERS, the state contributes 6.417 percent of an employee's gross wages to PERS. All eligible employees contribute 6.0 percent of gross wages. The authority's contribution to PERS for the fiscal year ended June 30, 1984 was $176.

The state's policy is to fund accrued pension costs. The unfunded past service costs and the actuarially computed value of the vested benefits are not readily available for the members of the plan employed by the authority. The Public Employees' Retirement System was actuarially sound at June 30, 1984.

4. ANNUAL LEAVE AND SICK LEAVE

Liabilities incurred because of employees' unused annual leave and sick leave are not recorded. The liability amounts associated with unused accumulated annual leave and sick leave at June 30, 1984 were $279 for annual leave and $55 for sick leave.

Permanent employees are allowed to accumulate and carryover into a new calendar year a maximum of two times their annual accumulation of vacation. Upon termination, qualifying employees having unused accumulated vacation and sick leave receive 100 percent payment for vacation and 25 percent payment for sick leave.

5. INTER-ENTITY LOAN

Section 90-7-211, MCA, gave authority for a $35,000 inter-entity loan from the state general fund for the initiation of the program. The loan was repaid in October 1984.

AUTHORITY RESPONSE

DEPARTMENT OF COMMERCE

TED SCHWINDEN, GOVERNOR

1424 9TH AVENUE

STATE OF MONTANA

(406) 444-3494

HELENA, MONTANA 59620-0401

December 21, 1984

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MONTANA LEGISLATIVE AUDITOR

Mr. Robert R. Ringwood
Legislative Auditor
State Capitol
Helena, Mt. 59620

Dear Mr. Ringwood,

I am pleased with the results of the audit of the Health Facilities Authority.

Since this is the first year of operations for the Authority, the audit gives us a positive base for continued effective management of this program.

Sincerely,

Keith J. Colbo

Keith Colbo
Director

publications & graphics

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